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FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 1364
RUEATRS/DEPT OF TREASURY WASHINGTON DC
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RUEHLO/AMEMBASSY LONDON 1287

UNCLAS SECTION 01 OF 02 ABU DHABI 000950

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ENGR](#) [ECON](#) [EFIN](#) [AE](#)

SUBJECT: UAE MARKET FLUCTUATIONS NOT AS DIRE AS EARLY PRESS REPORTS
SUGGEST

¶1. (SBU) Summary: UAE markets have shown some signs of volatility over the past few weeks, contributing factors including fears of a real estate slowdown and media reports citing the likelihood of the Central Bank tightening its lending policies to hedge against inflation and speculative behavior. Despite the press hype, local analysts are taking a calmer, more nuanced view of the situation. End summary.

¶2. (U) On August 14, UAE stock markets rebounded following what many media sources had coined a "plunge." While local and international press reported on panic selling with a sense of alarm, and described the week-long dip as indication of an ensuing bear market, financial analysts took a more nuanced view. After stocks, including Emaar Properties PJSC and mortgage lender Tamweel, spent the week in the red, the Dubai Financial Market General Index (DFM) -- which had sunk by 8.93% over the past 7 consecutive sessions -- rose by 130.2 points (2.63%), to close at 5,074.9. The Abu Dhabi Securities Exchange (ADX), closing at 4,463.21, also witnessed gains, rising 70.66 points (1.61%) after 8 back-to-back losing sessions.

¶3. (SBU) The Dubai Financial Market and Abu Dhabi Securities Exchange both declined at the onset of the week of August 17, down .57% and .07% respectively. While leading shares like Emaar, Arabtec, and Dubai Islamic Bank closed up (.31%, .33%, and .13% respectively), Tamweel saw its stock continue to fall, down 4%, as rumors of corruption charges against its senior management emerged. Emirates NBD also declined, closing on the 17th down by 3%. On the ADX, Abu Dhabi Commercial Bank's shares rose by 4.2%, Abu Dhabi Islamic Bank by 1.6%, and Sharjah Islamic Bank by 1.3% while pressure from other sectors -- namely energy, insurance, and construction -- led the ADX to close the day slightly down.

¶4. (U) Contributing factors to the downturn in the markets included fears of a real estate slowdown, sparked by the publication of a Morgan Stanley Report, "Winners and Losers in MENA Property" that cites a correction in Dubai housing prices starting in 2010 and reports in local media indicating that the UAE Central Bank was likely to tighten lending for personal loans and small businesses to hedge against rising inflation and rein in speculative behavior in the real estate sector. However, many financial analysts took a more relaxed view, recognizing that a similar phenomenon occurred at the same time last year, and indicating that the downturn involved low volumes and thereby not as significant as the press was making it out to be.

¶5. (SBU) A Dubai-based Credit-Suisse research analyst told TREAS officer that while the markets had momentarily dipped, there was not "a significant cause for concern" since the same scenario had unfolded last year at this time. While he mentioned the effect that the Morgan Stanley report had had on investors' confidence, and concerns regarding a correction in the real estate sector in Dubai in the near term, he confided that the report was analytically weak and not a good product. He explained that there were other factors contributing to the decline. First, declining oil prices could be affecting the markets (although this is not a major concern as GCC countries' budgets account for much lower price/barrel in their

annual budgets than what is actually being realized in terms of revenue). Second, global trends and volatility in international markets may be at play as a worldwide phenomenon of negative sentiment by investors in emerging markets is also reaching the GCC. (The flow of foreign investment funds to the UAE slowed last week, but sales have picked up in recent days.) A third factor, as referenced above, is a relative lack of liquidity in the UAE in the summer months as the market decreases on very low volumes. However, selling pressure did continue relatively unabated as investors, fearful of losses, started selling heavily those stocks that had recorded the highest profits. Hence, the research analyst continued, the sale of real estate and construction stocks like Arabtec (the highest gainer YTD) and Emaar (the largest real-estate developer in the MENA region) fell to its lowest levels since April 2005. Thus, the 7-session-long downturn was sentiment-driven rather than fueled by a change in market fundamentals -- as was also the case last year at this time.

16. (SBU) The Deputy General Manager for Financial Services at the Commercial Bank of Dubai voiced similar views, explaining that while the Morgan Stanley report is partially to blame, the perception that the Central Bank will take active measures to curb inflation and clamp down on speculation in the real estate sector is also at work. He explained that while the global credit crunch is having a slight effect on UAE markets and domestic lending policies are factoring into lower liquidity levels (deposit rates are a bit low and the scale of lending has been high), it is not considered likely that the Central Bank will take significant action to tighten monetary policy in the near term. Finally, reports that local banks are suffering a credit crunch that will have sustained, long term effects on the Emirati economy are overly alarmist, he claimed. These reports fail to mention and take into account that most banks

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have at least some government ownership and would thereby have access to funds from the government if and when "push came to shove."

17. (SBU) An associate at The National Investor echoed these explanations, indicating that the market slowdown is a result of a combination of many investors being away for summer vacation, the onset of Ramadan next month, and a recent IPO (Drake and Scull) that was 100 times over subscribed and "sucked liquidity out of the market." Commenting on last week's downturn and indications of a potential Emirati "credit crunch," an associate in the Emerging Markets division at the Abu Dhabi Investment Authority (ADIA) added that "Dubai Inc." would be the most at risk if liquidity shortages ensued due to how leveraged balanced sheets are in Dubai. However, he does not believe that this is an issue in the near term and assumes that investors will "keep the tap on for quite some time." He doubts that the effects of a liquidity shortage will be felt this year although the fundamentals in certain industries are starting to show signs of overstretch.

18. (U) Comment: Following the downturn earlier in the month, UAE stocks have continued to show good valuations over the course of the week beginning August 17. The DFM and ADX have continued to rise, albeit amid low trading volumes. The analysts' matter-of-fact reviews seem to describe the fluctuation more accurately than the earlier press excitement. End comment.

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